

POST POLITICAL AND SOCIO-ECONOMIC IMPACT OF THE EGYPTIAN REVOLUTION (2011)

ZEINAB ZAAZOU¹ & DOAA S. ABDOU²

¹Research Scholar, Department of Public Administration, Modern Sciences and Arts University, Egypt

²Associate Professor, Department of Economics, Modern Sciences and Arts University, Egypt

ABSTRACT

The Egyptian revolution carries a challenging transition phases. Starting with low FDI high budget deficit, high debt rate, high unemployment rate, high poverty rate and low standard of living. In addition to the budget deficit is expected to rise from 8.1% in 2009/10 close to 10% in 2010/11, as the interim government boosts spending to offset the impact of the political unrest. The temporary supply shortages that followed the upheaval coupled with rising international prices of food and fuel have been adding to the pressure on the domestic price level since early 2011. Thus the inflation rate is expected to increase from 11.7% in 2009/10 to 13.4% in 2010/11.

This paper tries to answer the following questions: How long will the transition period last? What are the drastic impacts on the political/economic conditions (after revolution), also social/sociological environment in Egypt? And what about these impacts within the governance framework? What effect does all that have on neighborhood countries? At last, what are the solutions and remedies suggested to overcome this period and start a new flourished era? We are aiming to tackle these important topics and examine them through theoretical and descriptive study, hoping to come up with adequate answers, solutions.

KEYWORDS: Political, Socioeconomic Problems, Governance Framework, Revolution

INTRODUCTION

Arab countries suffer from the increasing levels of social inequality, weak public corporate governance, limited competition, lack of well structured public sector and pervasive corruption during the last ten years. Consequently, the result from neglecting the social and ethical responsibility, and ignoring the rightful interests of all the parties affected by the business creates crisis other name it revolution. The unequal earning destroyed the poor lives and spread poverty and slumps. More considerably, Egypt's economy had reached a point of indignation that had a well-founded sense of social injustice and discontent.

Egypt suffered from corruption, bad economic performance in addition to absence of political parties. Egyptians used to adapt with all these economic stresses without any complains, but Egyptian youth didn't accept all these imbalances and they decided to go for a change. Anger and hate motivated them not to return home unless they change their destiny. The Egyptian revolution uprising based on the increased disconnects among citizens; they were oppressed as a minority from a group of business men. In addition, to the increase level of poverty followed with an increase level of food prices while the gross domestic product per capita increased by 2% (World Development Indicator WDI, 2010).

The revolutionary Egyptian youth was marked by a drastic wave of antiauthoritarian movements toward social correction. Egypt now witnessed a transition period masked with uncertainty, characterized by political transition accompanies with economic risks. There are many reasons behind the uprise in the Egyptian revolution, from these the latest parliamentary elections were the Islamist groups eliminated; an incident that made the people loses confidence in the regime. Moreover, the monstrous murder of ‘‘Khaled Said’’ helped rally the people against police coercion due to their rage against police brutality. Public rage escalated due to the bombardment of the ‘‘Two Saints Church’’ that pointed fingers to the regime. In addition to corruption and deteriorated socio-economic conditions, cruelty of police and its troubling presence, and the high prices of basic goods and services.

The following sections one and two are designed to assess the impact of the Egyptian revolution on the political level, followed with the socio economic effects. Third section focuses on the impact of the Egyptian revolution on the neighboring countries. Finally, conclusion and recommendations.

I. THE EGYPTIAN REVOLUTION IMPACT ON THE POLITICAL LEVEL

The political environment in Egypt was known in all the declarations of constitutional and constitutions interim that followed the 1952 revolution up to the permanent constitution in 1971, as amended, and until the 25th of January revolution, as a mixed system (in form or constitutional) Any system that combines some characteristics of parliamentary systems in addition to some of the characteristics of presidential systems, is called ‘‘a mixed system’’.

Going back to the year 2010 in Egypt, it ended with a very controversial parliamentary election that caused mounting uproar over ‘‘legitimacy crisis’’ and gross allegations of fraud. The poor political performance combined with high level of corruption helped the government to collapse and created political instability. This parliamentary crisis of 2010 was the fuel that caused a wide uprising on January 25 and protests over political reform and social inequity, the political upheaval was well received internationally and domestically as the transformation would set the first stage for a real democratic system in Egypt.

The move towards democracy Egypt starts with a controversial parliament; post-Mubarak political risk in Egypt will remain as the Muslim Brotherhood's Freedom and Justice Party remains the most dominant political force in the new assembly, and will have a great deal of influence in drafting the country's new constitution. Underlying tensions between parliament and the military have yet to be resolved, and may prove to be a major source of conflict further down the line. In line with our core view, the Muslim Brotherhood's Freedom and Justice Party (FJP) has emerged as the most powerful political force in Egypt following elections to the lower house of parliament. The FJP's coalition securing approximately 235 out of the 508 seats up for grabs, or approximately 46% of the total.⁽¹⁾ The primary task of Egypt's new parliament will be to nominate a 100-member assembly that will be tasked with writing a new constitution. In this sense, far from being

(1) The big winner from the country's first post-Mubarak election was the Salafist Al-Nour Party, which won 123 seats, or 24% of the total. A collection of secular and liberal parties, including New Wafd and the Egyptian Bloc coalition, managed to win a little under 10% of the vote respectively, with the remaining seats being taken up by a variety of smaller parties.

trivial, this parliament will have a crucial role in shaping the broad contours of the country's future political institutions.⁽²⁾

It is noted that the constitutional declaration issued in March 2012 did not specify in an open form of the regime in Egypt, resulting in determine the nature of the relationship between the two authorities legislative, executive, and perhaps the goal is to be to determine the form of the regime in Egypt up to the new permanent constitution, it follows that two observations are important from my point of view as follows: -

The first Observation

The importance of a new permanent constitution for Egypt such as the completion of the presidential election and before the end of the transitional period, which ends, according to the Supreme Council of the Armed Forces of the end of June 2012, because the Constitution is a political document critical identifies the authorities in the country and form the system of government and the relationship between the authorities , and functions of the President to clearly and accurately identifies features of the political path to the homeland.

The Second Observation

On a system of government most suitable to Egypt in the coming period, between forms of governance different, and it can be said that the presidential system, which gives broad powers to the President of the Republic may not find favor with the citizens and that the fears of the emergence of another president later in powers political sub- absolute, which is no longer receptive to the people after the revolution of January 25. The parliamentary system, which is the President of the Republic of the limited powers or honorary, and concentrated tasks the executive power in the hands of the Prime Minister, requires the existence of strong political parties could share power among themselves which is not available to Egypt in the recent crisis, and probably will not be available these parties are strong in the foreseeable future.

As a result, the mixed system which combines the characteristics of parliamentary systems and the characteristics of presidential systems or so-called system "Alberlmasa" (mean presidential/parliamentary system) may be the system most suitable to Egypt in the coming period, but in this system there are two patterns is required choice between them, namely: -

- Mixed system closest to the presidential
- Mixed system closest to the Parliamentary

It may be best for Egypt in the next phase to be taking the mixed system closest to the Parliamentary system.

As a result, although there has been a significant amount of coverage over who may decide to run for the presidency, by the time the vote comes around (which we expect in June), the outcome will most likely have little impact

(2) A clear division of powers between the legislative and executive branches of government will likely be the most prominent features of the post-Mubarak constitution in our view, and we expect to see a greatly diminished role for the president in the first instance. Indeed, although an array of views and ideologies are represented in the new parliament, we believe one of the main commonalities among the major parties is to see a legislature with greatly enhanced powers.

over actual policy formation.⁽³⁾

The President's responsibilities are determined by the constitution and this depends on the political system applied in the country. In addition, the functions and powers exercised by the President of the Republic jointly with the Prime Minister, is also referred to in the constitution of the Republic. The Prime Minister and ministers relations and responsibilities is derived from the constitution itself and not derived from the president of the republic.

The Relationship between the Executive⁽⁴⁾ and Legislative⁽⁵⁾ Branches in the Mixed System and the Closest to the Parliamentary System, We View it Should be as Follows

- Plurality of centers of gravity in the executive and the terms of reference for the President involve pluralism in the executive branch to distinguish the clear and precise between the terms of reference of the President and the terms of reference of the Prime Minister and Minister. Which are derived from the Constitution itself and not derived from the President of the Republic? In addition to the functions and powers exercised by the President of the Republic jointly with the Prime Minister.
- Plurality of centers of gravity in the legislative and increase their competence. Moreover, to the tasks of law-

(³) As the activation of these specialties control makes government more tightly controlled by parliamentary practices and not only from a constitutional standpoint or a theory. It also highlights the subject of continuity of Shura Council and if its continuation is required to increase its functions and specialties so that it works harmonically with the legislative power Accounting for the President of parliament and ministers in the case of abuses. It also requires, in my view the text on the rules of legislative and constitutional to ensure accountability of the President and Minister in the event of irregularities as soon as they occur and so as not to delay the accounting until the exit of the minister of the ministry, but to be accounting for the offense as soon as they occur, which prevents the personalization of power and without the tyranny of the executive or legislative authority to call it.

(⁴) The executive branch: The Egyptian political system established by constitution it's the party plurality, the political system is being a semi-presidential one. The judiciary power, the parliament, and the executive power are separated, the executive authority's actions being controlled by the parliament through several mechanisms. The executive power is represented by the president of Egypt, the local administration, the prime-minister, and by the minister's cabinet.

Executive Branch responsibilities: i) Executing or implementing public policy authorized by the legislative branch. ii) Proposing public policy(laws & regulations / preparing the budget)

(⁵) **The legislative branch** (People assembly): The legislative power of Egypt is represented by the parliament which is made by the upper house -the Shura council and the lower house - the people' assembly. The people assembly has the right to dismiss the president if is guilty of criminal facts or of grand treason. People assembly is consisted of 444 elected members & 10 selected members by the president himself. Also People assembly should control the executive branch, but unfortunately due to lacking of accountability, & weakness of the political power, bureaucracy becomes stronger than the legislative body itself.

making and budgetary control and so that it is for the Legislature the power of parallel (and perhaps beyond Alssultha, which means beyond authority) executive. Perhaps the most important aspect of these manifestations control of the legislative authority to the executive branch is the right of the investigation, its application and activation of practice. Including this implies the possibility of withdrawal of confidence from the government or the executive branch.⁽⁶⁾

- Reducing the authority of the President of the Republic in the dissolution of Parliament: The importance of that stripped the President of the Republic (a top executive) of an important tool that can be used to intervene and influence the legislative power. In addition to the maintenance of determining the presidential term to four years and is renewable only once, and immunization of this provision in the new constitution.

It is not capable of being modified by any president wants to launch an upcoming presidential term, or increasing the time period for the period one, it supports the role and independence of the legislative authority in the face of the executive branch.

It is required in all cases in the area of the relationship between the legislative and executive commitment to strict constitutional limitations in terms of realism and multiple centers of decision-making between the President, Prime minister and Parliament. Which prevents the control of one person or institution alone on the political process?

The political transition period after the revolution will last till the Egyptian become mature enough to transfer to democracy, and create a real liberal leadership which is a necessary foundation to liberal democracy. As we expect that the first free presidential elections in the history of Egypt will produce a respect to the point of view of the opponent. A dream that will end the pain of Egyptian and draw their future. This will not stop the conflict between the new leadership and the Islamist, the issue will maintain the transition period.

Governance Frame-Work Post Revolution (on the Political Level)

During transition to democracy from an authoritarian regime the state should undergo major public administration reforms. Considering the shift of the relation between the state and its citizen from control to responsiveness, therefore the state's administrative apparatus must undergo major shifts. In authoritarian governments as the communist states in Eastern and Central Europe, and similarly Egypt post Nasser's era since 1952, the states control citizens and force them into directed behaviors by the political authorities and its security forces. In a democratic nation, the state is not superior to its

(6) As the activation of these specialties control makes government more tightly controlled by parliamentary practices and not only from a constitutional standpoint or a theory. It also highlights the subject of continuity of Shura Council and if its continuation is required to increase its functions and specialties so that it works harmonically with the legislative power Accounting for the President of parliament and ministers in the case of abuses. It also requires, in my view the text on the rules of legislative and constitutional to ensure accountability of the Present and Minister in the event of irregularities as soon as they occur and so as not to delay the accounting until the exit of the minister of the ministry, but to be accounting for the offense as soon as they occur, which prevents the personalization of power and without the tyranny of the executive or legislative authority to call it.

citizen, but governments' main objective is to serve its people and create an environment for development of its citizens. Therefore institutional reforms are a pre-condition for building democracy during transitional phases to allow for the inclusion of the citizens in the decision-making process. Decentralization is a major reform to the state's institutions promoting and implementing self-governance to develop the state's institutions and enable citizens to exercise their civil rights. It is a fundamental reform during transitions aiming to expand and develop local self-government institutions. Increasing overall quality and effectiveness of the state's governance system can be achieved with a consequent increase in the authority and capacities of sub-national government levels. In addition, decentralization, when appropriately structured, provides an arrangement through which critical issues such as national unity and indivisibility are countered; ensures local development and equity in the distribution of resources, and hence local autonomy can be realized.

Decentralization's aim is based on the subsidiary principle bringing decisions closer to the beneficiaries at the most effective level of local government and therefore increasing effectiveness, transparency and curbing corruption. (USAID, 2010)

2. THE REVOLUTION IMPACT ON THE SOCIO-ECONOMIC LEVEL

The democracy-economic growth studies test two competing hypotheses: (1) political and civil freedom is a necessary condition for economic growth, versus (2) democracy causes a slower improvement of living standards. Several empirical studies couldn't resolve completely this theoretical dilemma (Sirowy and Inkeles, 1990) although the first hypothesis received more empirical support (e.g., Barro, 1991a; Grier and Tullock, 1989). Studies examined the role that the constitutional organization of a nation has in explaining cross-country differentials in economic development, i.e., economic growth.

Political stability and economic growth outcome are deeply interrelated. Egyptian revolution has results in a prolonged political transition, as there are difficulties evident in government's process of defining a clear and creditable guideline for political and economic reform.

The Egyptian revolution carries a challenging transition phase faced with low foreign direct investment, high budget deficit, high debt rate, high unemployment rate, high poverty rate and low standard of living. Real gross domestic product growth rate is expected to be only 1.6% in 2010/11, down from 5.1% in 2009/10, see table 1. Economic Growth estimated to be between 1.7% and 2.5% for the rest of the fiscal year 2010/11.

Table 1: Egyptian Macroeconomic Indicators

	2008	2009	2010	2011 (p)	2012 (p)
Real GDP growth	7.2	4.7	5.1	1.6	5
CPI inflation	11.7	16.2	11.7	13.4	12.2
Budget balance % GDP	-6.8	-6.6	-8.1	-9.8	-9.4
Current account % GDP	0.8	-2.3	-2	-3.2	-2.9

Source: Data from Central Bank of Egypt (CBE) and CAPMAS: estimates (e) and prediction (p) based on authors' calculations. Fiscal year July (n-1)/June (n).

2.1 Tourism

Tourism sector is one of the country's economic pillars; Egypt in 2010 had 14.7 million tourists after 25th of January tourism revenues dropped by 60 percent. Hotel occupancy rates decreased in the first four months of this year by 16 percent compared with the same time in 2010. "Tension, destabilization and sectarian sedition lead to the drop in tourist

reservation by 20 percent during January. Egypt has lost around two billion U.S. dollars in tourism revenues due to the political unrest, according to official estimates earlier this month. Moreover, revenues from exports and the Suez Canal were not affected as the tourism sector. Tourism has been negatively affected throughout the region, where the drop in arrivals was close to 45 percent in the first quarter of 2011 (World Bank 2011a)

2.2 Foreign Exchange Reserves

The Egyptian foreign exchange reserves have been dropping rapidly, as they were pre-revolution \$36 billion and after revolution \$15 billion. The decline was sparked by the dramatic events in Egypt,

Which took their toll on the receipts of foreign currencies? Tourism revenues dwindled by 47.5 percent in the second half of the year, compared with the first. Moreover, for the first time, FDI registered a negative record low of US\$ 65 million, whereas the portfolio investment unfolded a net outflow of US\$ 7.1 billion, (Central Bank of Egypt CBE, Annual Report 2011).

2.3 Foreign Investment

Foreign investment in Egypt deteriorated after the revolution from 6.8 to 2 USD Billion for the fiscal year 2010/11. The main indices of Egypt's stock exchange (EGX 30 and EGX 100) both dropped by 10.5% and 14% after the revolution, (ECES, June, 2011). The gain issue towards actor to invest especially in recent times in light of the economic challenges daunting conditions worsening budget deficit of the state. It stood at 134.5 \$ billion and is expected to rise to 160 \$ billion, approaching this to 10% of the gross GDP. As well as the growing deficit in trade balance, which exceeded the 28 billion dollars in 2011, and the fall in foreign direct investment is less than 2 billion dollars after they had crossed the \$113 billion a few years ago, (CBE, Annual report, 2011).

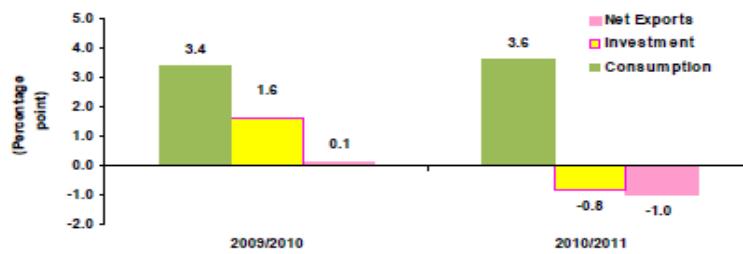
Compounding the seriousness of the matter forced the government to the expansion of borrowing through issues treasury bills and bonds until he reached the total borrowing to 119 billion and increase of 158% from last year, means crowding out the government to the private sector to get credit, which limits the investment and developments have affected negatively the banking institutions where they reduced internationally operating banking in Egypt credit rating.

Moreover, Egypt recorded a significant decrease in the numbers of private investment, domestic and foreign; in light of the apparent lack of stability and internal security as well as blurred vision official of the state under the rule of military and is the successive governments present, and lack of homogeneity in trends. As well as the absence of disciplines, overlapping of responsibilities and the inability of Parliament to prove his ability to play the role expected of it. This is what it has become clear in the cycle of decline in numbers of private investment (Oxford Business Group, 2012).

2.4 Debt Crisis

The debt as a percentage of GDP (15.2 percent) indicator comes among the best global levels, that ranged between 15.3 percent for the developing Asian economies and 66.0 percent for North and Central European countries. Moreover, the indicator of debt service/exports of goods and services recorded 5.7 percent, i.e. less than the global levels forecast for 2011 that ranged between 11.0 percent for Sub-Saharan Africa and 55.8 percent for North and Central Europe, according to the IMF's World Economic Outlook, (International Monetary Funds's (IMF) World Economic Outlook - Sept. 2011).

On the demand side, the slowdown in economic growth was primarily due to lower share of capital formation (including the change in stock) that registered a negative 0.8 point (against a positive 1.6 point). An extra factor at work was the decline in the share of net external demand (exports of goods and services less imports of goods and services) that shifted from a positive 0.1 point to a negative 1.0 Point. Moreover, the rise in the share of private consumption (3.2 points against 2.9 points) made up for the weak contributions of the above items.



Source: Central Bank of Egypt, annual report, 2011

Figure 1: Share of Demand Components in Real GDP Growth Rate

2.5 Balance of Payments and External Trade

There are two basic factors that contributed to the overall deficit: the current account deficit which retreated by 35.9 percent to record US\$ 2.8 billion (against US\$ 4.3 billion a year earlier), and the capital and financial account that unfolded a net outflow of US\$ 4.8 billion (against a net inflow of US\$ 8.3billion).

The decline in the current account deficit was brought about by the fall in trade deficit, the increase in net unrequited transfers, and the contraction in services surplus (see table 2- in the appendix). The trade deficit narrowed by 5.3 percent to US\$ 23.8 billion (against US\$ 25.1 billion), reflecting the rise in merchandise exports by 13.1 percent to US\$ 27.0 billion, and a comparatively moderate rise in merchandise imports by 3.6 percent to US\$ 50.8 billion. Services surplus went down by 23.8 percent to US\$ 7.9 billion (against US\$ 10.3 billion in the previous FY), due to the retreat in services receipts by 7.2 percent, combined with a rise in services payments by 5.8 percent, as illustrated below:

- **Services Receipts** fell by 7.2 percent to US\$ 21.9 billion. Services receipts were mostly responsible for the decline: travel receipts(tourism revenues) decelerated by 8.6 percent to only US\$ 10.6 billion, other services receipts shrank by 27.8 percent to US\$ 2.7 billion, and investment income receipts almost halved by 49.5percent to register US\$ 418.8 million. However, transportation receipts went up by 11.8 percent to US\$ 8.1 billion due to the 11.9 percent increase in Suez Canal earnings to US\$ 5.1 billion.
- **Services Payments** augmented by 5.8 percent to US\$ 14.0 billion due to the rise in investment income payments by 24.5 percent to US\$ 6.5 billion, and transportation payments by 12.7 percent to US\$ 1.4 billion. In the meantime, government expenditures fell by 27.9 percent to US\$ 1.1 billion, travel expenditures by 9.2 percent to US\$ 2.1 billion and other services payments by only 0.5 percent to stand at US\$ 2.9 billion.

On the other side In FY 2010/2011, the volume of trade expanded by 6.7 percent, registering US\$77.8 billion (Against US\$ 72.9 billion a year earlier). The uptrend came on the back of the 13.1 percent increase in export proceeds to

US\$ 27.0 billion (oil exports rose by 18.3 percent and non-oil exports by 9.1 percent). Imports increased as well, albeit at a slower pace than exports (3.6 percent), to register US\$ 50.8 billion, reflecting the rise of 15.2 percent in oil imports and the fall of 2.3 percent in non-oil imports.

2.6 Unemployment

In the past 20 years Egyptian unemployment was fluctuating at a rather high level (8–12%). However, after the launch of economic reforms in the mid 2000s it started to decrease in a rather stable manner. Predictably, there was some increase (though not so pronounced as in most other countries) in unemployment level as a result of the global financial economic crisis, but in 2010 unemployment went down again, see figure 2.

This increase in unemployment is one of the most significant issues in the short run because the increase in unemployment will result in further reduction in production levels as it will increase the burden on governments due to the increase in the government expenditure as they will pay more unemployment benefits, resulting in a drop of the economic performance (Farid, 2011).



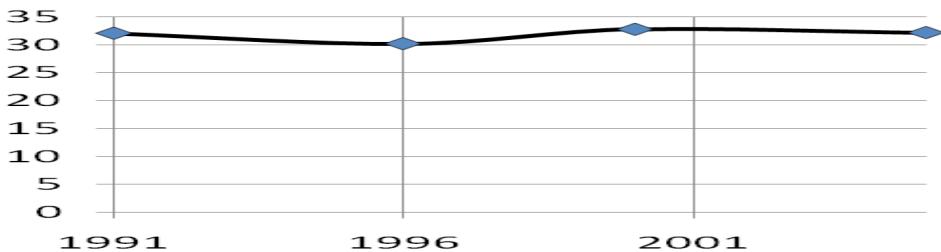
Source: World Development Indicator, 2011

Figure 2: Unemployment Rate and Employment to Population Ratio during the Period 1999 to 2010

Egypt's unemployment rate in the last quarter of 2010 was 9.5 percent; it has risen to 11.9 percent in the first quarter under the impact of the political unrest (CAMPAS, 2011). The World Fact book estimated 3.2% increase in the unemployment rate in Egypt to currently be 12.2% instead of 9% just a year ago; this shows the shocking effect that the Arab Spring has had on Egypt's unemployment rate (Hagen, 2011).

2.7 Inequality

Gini index is most frequently used for measuring the level of economic inequality. Egypt had the following dynamics of Gini index, see figure 3. Thus, inequality index in Egypt was fluctuating around 30–33 points. Let us view how this low level of economic inequality inherent to Egypt compared against the global background is connected with a very specific character of Egyptian poverty which, by the way, is one of the main causes of youth Egyptian revolution.



Source: World Development Indicator, 2011

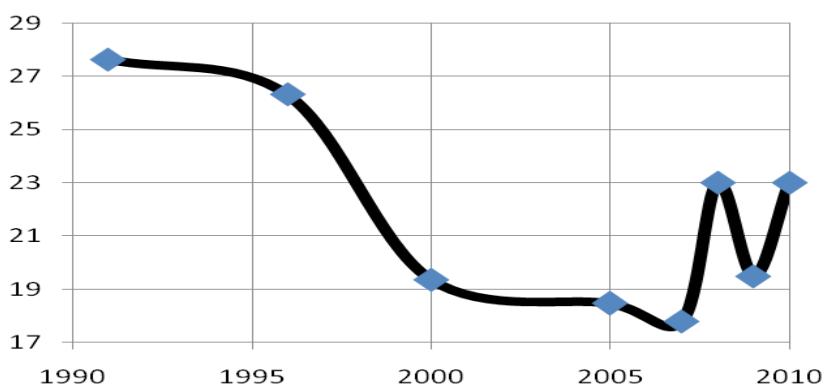
Figure 3: Economic Inequality in Egypt during 1991- 2005

2.8 Poverty and Subsidies

The common notion is that 40% of Egyptians live below \$2 a day income poverty line. Remarkably, nobody mentions the Egyptian level of extreme poverty, i.e: proportion of people living below \$1 a day income poverty line. At the peak of world economic boom when Egypt recorded annual economic growth rates of 7.2% the proportion of Egyptians living below \$2 a day poverty line increased significantly from 17.8% to 23%. On the contrary, global financial economic crisis was accompanied not only by economic growth rates slowdown, but also by a visible decrease in the proportion of Egyptians living on less than \$2 a day, from 23% to 19.5%, (Gamal Siam and Hanady Mostafa Abdel Rady, 2010).

Global economic post crisis recovery led to the blowing of new price bubbles in the world food market almost reaching or even exceeding the peak levels of 2008. Basing on the model by Gamal Siam and Hanady Mostafa Abdel Radi, we have to expect that the proportion of Egyptians living below the \$2 a day income poverty line should have reached the 2008 level by the start of the Egyptian Revolution, see figure 4. In spring 2008 the protests against food price growth surged in Egypt. The central event was the strike of spinning and weaving factory workers in the industrial city of "Almahalla Alkubra" which started on the 6th of April, 2008. The worker's dissent was aimed first and foremost at the decrease of living standards caused by food price growth.

Egyptian bloggers supporting the strikers launched a Face book group called «April 6 Youth Movement». It is known that this movement played a crucial role in the Egyptian Revolution 2011. Still more important was social self organization through Face book which was first successfully tried in spring 2008 by this youth movement and proved its efficiency in 2011 events, (Andrey Korotayev and Julia V. Zinkina, 2011).



Source: World Development Indicator, 2011

Figure 4: Proportion of Population living below \$2 a Day Income Poverty Line, Egypt, %, 1991- 2010

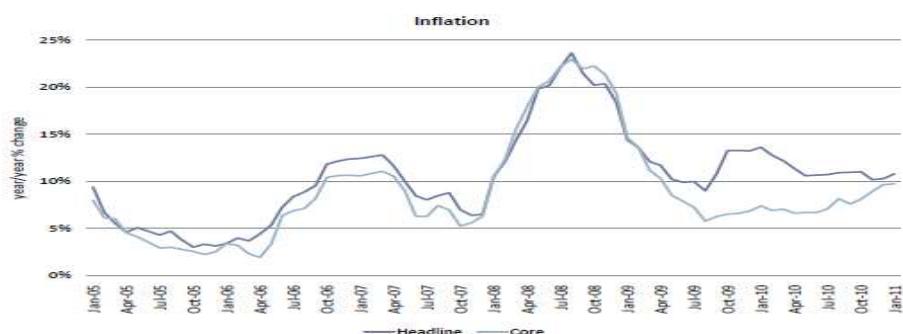
To overcome the poverty problem Egyptian government use subsidies to ease the burden of poverty. The Egyptian government spends more than \$15 billion a year on energy subsidies, and can't cut any percentage of this spending otherwise it may face harsh public opposition. The temporary supply shortages that followed the upheaval coupled with rising international prices of food and fuel have been adding to the pressure on the domestic price level since early 2011. Thus the inflation rate is expected to increase from 11.7% in 2009/10 to 13.4% in 2010/11. Similarly, the current account deficit is expected to widen from 2.0% of GDP in 2009/10 to 3.2% in 2010/11 and then fall to 2.9% in 2011/12 as FDI inflows, remittances and the services balance remain vulnerable.

The Egyptian system of subsidies mitigated the strike blown by global food price rises to the poor. Indeed, the system does not cover all necessary food commodities. Besides, the average Egyptian family having a ration card bought at a subsidized price about 60% of its consumed sugar, 73% of oil and 40% of rice. The rest of these goods the family had to buy at market prices are much higher than the subsidized ones, (El Nakeeb A.M., 2009).

2.9 Inflation

The increasing rate of "Inflation" has a significant impact on the time value of money (TVM), as banks and financial institution realize that, they increase the interest rates to compensate the erosion of the value of money due to inflation over the term of the debt instruments they offer. Annual CPI inflation averaged 11.8 percent in 2009/10, see figure 5. The first half of 2010/11 (July-December) witnessed relative stability in headline inflation rate (year-after-year).

The monthly core inflation index accelerated in the first half of 2010/11 from 7.1 percent to 9.7 percent, driven by the rising prices of rice, poultry, edible oils and fats. Remarkably, is the convergence of the core and headline inflation rates?



Source: Central Bank of Egypt, 2011

Figure 5: Inflation in Egypt during the Period 2010-Jan 2011

Social Backlashes after the Revolution

If we look at Egypt's socio-economic condition after the 25th of January revolution, we'll realize how serious the situation is. Going back before the January revolution, we'll find out that the deteriorating in the Egyptian socio-economic life has started long time ago: prices are rising up, while salaries and incomes are in status quo. A sustained deterioration in the purchasing power of money was going on. The social justice will not be achieved without creating a basic sense among Egyptians to choose the next president and parliament based on platforms that combine a clear policy to end the poverty of workers, parallel with the necessity of socially responsible capitalism. They must also admit that fundamental socialism and fundamental capitalism have failed. Learning lesson from history a free market economy, like a centralized economy they fail to achieve economic success or social justice.

We believe that poverty and social injustice are the main reasons for the Egyptian up rise. Poverty is similar to terrorism and must be uprooted. The desperate poor people believe to kill anyone who is opposing their interpretation of the religious text. Targeting the areas and residents living in abject poverty should be similar to how terrorist groups and strongholds are targeted. The sense of poverty is deepened by an inefficient economic system.

People in Egypt felt the huge gap between poor and wealthy people, which was reflected by imbalance of distribution of power and wealth. It also imposes unfair, unreasonable pricing that threatens social, political and economic stability. In addition to the increase unemployment, recession, poverty and wasting wise leadership and citizenship rights.

All the above-mentioned cause Egyptians upraise, in case the government, private and nonprofit sector didn't take serious actions to solve the critical social economic conditions, these negative socioeconomic aspects will be more rooted in Egypt.

Learning the lessons of industrialized states that have achieved economic progress and social prosperity around the world, from Asia to America to Europe, it is clear that a social economic market system that combines economic aptitude and social justice safeguards against the dangers and losses of a social uprising, and uproots poverty entirely.

Governance Frame-work Post Revolution (on the Social Level)

The promotion of "civil society" has become one of the pillars of "good governance". The Arab countries, including Egypt, have also been concerned by this new approach to development. Thus, governments show their willingness to dialogue with civil society. At the same time, two phenomena appear today: on the one hand, a strengthening of the weight of civil society, under the impact of the process of liberalization of the media (independent newspapers, TV programmes, new media), and on the other hand a diversification of civil society actors: NGOs, protest movements, action groups and various urban and rural groups. These diverse actors rally around various causes and interests and contribute to partially modify the modes of governance and public action at the national and local level, and to the current renewals of the theories about civil society and politics in the framework of the changes brought about by globalisation to the states and the societies. (Al-Ahram Centre, 2014)

Performance of CSOs within the Governance Process

One of the main players in the governance process are the CSOs (Civil Society Organizations).

The performance of CSOs in Egypt and the Arab countries varies depending on the political, cultural, and legislative conditions in which they exercise their activities. It also varies depending on the size and sources of funds of those organizations, their regulatory and administrative structure, their goals, the variety of their activities, their geographical coverage (local, national, regional or international), and also their financial and administrative independence.

The continuous development of the role of CSOs occurred in parallel with new trends of intervention and contribution of those organizations in the modernization and change process.

Those trends can be summarized as: Influencing decisions and public policies, Monitoring the Government, Stimulating citizenship and promoting civil culture, Raising public concern for development issues, Developing coordination and networking relationships.....etc

Mechanisms of Participation of Civil Society

Participatory mechanisms require acceptance by each party of the position and role of the other and agreement to cooperate, i.e. that Governments respect the independence of organizations, and organizations abide by the laws and regulations. It is no more feasible to make decisions or design and implement public policies through the top-to-bottom method of intervention.

Therefore, participation in those decisions and policies requires appropriate mechanisms of communication and exchange of information and expertise, such as: decentralized institutions, joint councils and the media which constitutes a forum to promote dialogue and participation among social actors, Accountability, which leads to enhancing confidence and participation and mobilizing resources, and so on. (ESCWA, 2012)

Governance Frame-work Post Revolution (on the Economic Level)

A week after the Egyptian revolution in January 2011, banks had to deal with a whole new world of problems such as: firms were unable to apply the usual array of risk indicators to their positions due to lack of accessibility to central offices and live market data to work with. The next challenge was reopening the markets again.

The authorities feared a mass deposit run from panicked Egyptian citizens, and were attempting to set up support arrangements for firms if the worst should happen. But fortunately, when some banks opened their doors on February 6, it wasn't as bad as people expected. There was some initial reduction in deposits at Egyptian retail banks, but not too much. Market participants say the CBE used its close relationship with Egypt's public-sector banks, such as Bank of Alexandria and the National Bank of Egypt, to keep the value of the Egyptian pound relatively steady after banks reopened for business. The CBE's priority was to give people a way out of their positions, while maintaining the value of the currency and other local assets. So, they intervened in the market through the public banks. When the banks reopened, the Egyptian pound quickly lost value against the dollar, but recovered soon after.

The provision of cash as needed when the banks reopened gave confidence to the people and helped prevent a deposit run. Moreover, the CBE guaranteed all deposits in the banking system and also issued circulars that generally addressed specific, crisis-related issues. Although bank profits cut by 25 percent, and the value of collaterals by 50 percent—still indicated that the capital ratio would still exceed 11 percent. The capital injections in the 1990s helped the banks sustain the shocks. Social unrest, lengthy demonstrations, and strikes, including strikes by the staff in the financial sector, especially state-owned banks. Affected sectors, such as mining, tourism and construction, were immediately hit by the crisis. During this period, economic growth fell sharply and (GDP) decreased. Overall the macroeconomic environment has been deteriorating since January 2011. The uncertainty surrounding policies of the new administration have had a major effect on the future of Egyptian economic and financial sector development. (Watt, August 2011)

Regarding the crisis management process, the CBE increased its regular monitoring of the system and closely examined the solvency of the banking system. The CBE required banks to also conduct stress tests and assess the quality of their assets. The most important of these tests were those on credit portfolios; this was complemented by the CBE's requirement for banks to monitor their portfolio in a circular. The CBE also took several temporary preventive and precautionary measures in response to the developments, issuing six circulars in response to the developments during the period of January-February, 2011; appropriately they were generally temporary and limited to time bound corrections of specific issues that had arisen. These were mainly related to cash withdrawals by individuals and corporate; risk

management related to retail loans and the tourism related corporate loans; overseas cash transfers; and the grace period for banks divesture of their ownership of non-financial corporation's. Improving governance, transparency and accountability, strengthening governance and addressing *conflict of interest issues, are key priorities for the authority's reform program.* The amendments of the Central Bank, Banking System, and Money Law 88 of 2003 on October 8, 2011, aim at strengthening the governance of the Central Bank and its Board of Directors. The CBE is also strengthening the corporate governance of commercial banks, and will supervise the evaluation of a bank's corporate governance. On transparency and disclosure of data the central bank made significant progress post revolution.

The CBE (Central Bank of Egypt) began to disclose and make public on its website the consolidated banking sector financial statements and related indicators (capital adequacy ratio, return-to-assets, efficiency ratio, liquidity ratios, etc.) on a quarterly basis starting July 1, 2011.

The CBE will also post a description of its supervisory review process. These disclosures are part of greater transparency in the financial system, which will improve market discipline. (Nasr, June 2012)

Comment

Before the January revolution and the global economic crisis, Egypt was a very attractive Middle-eastern destination for FDI (Foreign Direct Investment). The dynamic growth of the Egyptian economy (around 7% before the crisis), its strategic geographical position, low labour costs, skilled workforce, unique tourist potential, substantial energy reserves, large domestic market and success of the reforms undertaken by the authorities (including many privatisations) all sharply drove up FDI. The regional context must also be taken into account, as Egypt benefited from abundant liquidity coming from the Gulf States as a direct result of the increase in revenues generated by oil exports.

However, FDI decreased following the global economic crisis and the socio-political revolution of 2011. FDI flows declined in the fiscal year 2012-2013, and then increased quite significantly in 2013-2014 (USD 10.8 billion of inflows). Egypt gained one place in the 2015 Doing Business report, published by the World Bank (112th out of 189 countries). The World Bank has stressed that significant progress has been made in terms of protecting minority investors. In March 2015, Egypt hosted a conference aimed at attracting new FDI with a target of USD 12 billion. (Foreign direct investment report 2014)

According to the UNCTAD (United Nations Conference On Trade And Development) 2014 World Investment Report, UNCTAD) Egypt is one of the top five African countries in terms of attracting FDI and the largest recipient in the sub-region. FDI come mainly from the EU, the United States and the Arab countries. The UK is the largest investor in Egypt. FDI is concentrated in the oil sector, followed by the construction, telecommunications, financial services and health care sectors.

The following table is presenting the FDI inward flow and stock, the performance index, potential index, and the number of Greenfield investments in Egypt during the years 2011, 2012, and 2013. Noticed that the FDI Inward Flow was in 2011: -483 USD, increased in 2012 and became 6,881 but fluctuated again and decreased a bit in 2013 and resulted: 5,553 million USD.

As for the FDI stock, the table shows a constant increase: 72,612 million USD in 2011 till it reached 85,046 million USD in 2013. The performance index and potential index experienced **no ranking index of performance and potential investments** during the year 2012 and 2013. The country went through a transition period that time; the scaf

ruling ended and the presidential elections started between Shafik and Morsi, which resulted in Morsi winning the elections and the Muslim Brotherhood ruled the country for a whole year (2012-2013). In the 30th of June 2013, the Egyptians rose up again demanding ex president Morsi to step down and asked for new presidential elections. President Adly Mansour took over ruling the country during a transition period (2013-2014). After that, Field Marshal 'Abdel Fatah El Sissi' ran the presidential elections against few candidates (Mr. Hamdin Sabahi, Mr. Mortada Mansour.... And others). El Sissi won the elections since June 2014 till now. As we mentioned before, Egypt went through a turbulent period since 2011- 2014, and still not really back to normal. All that explains why no ranking of performance and potential investments' index during this era. Beside the ranking issue, noticeable that the greenfield investments, and FDI inwards and stock in% of GFCF and GDP, were increasing during 2011-2013.

Table 2

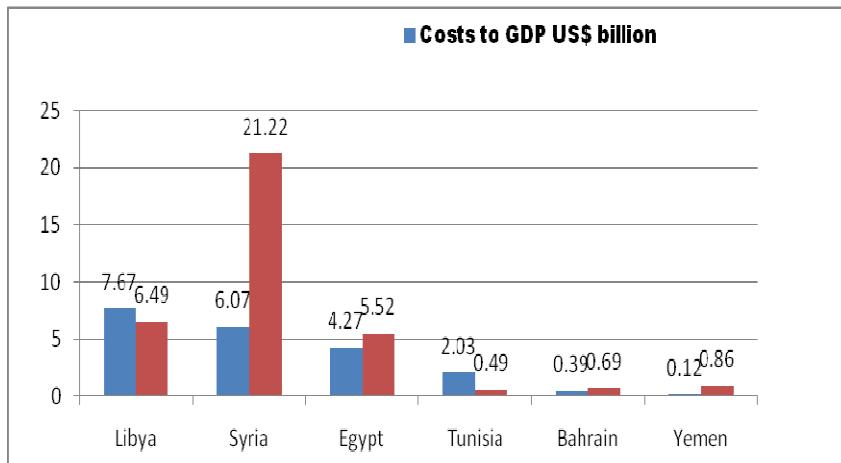
Foreign Direct Investment	2011	2012	2013
FDI Inward Flow (million USD)	-483	6,881	5,553
FDI Stock (million USD)	72,612	79,493	85,046
Performance Index*, Ranking on 181 Economies	82	-	-
Potential Index**, Ranking on 177 Economies	46	-	-
Number of Greenfield Investments***	52	60	44
FDI Inwards (in % of GFCF****)	-1.3	16.9	12.8
FDI Stock (in % of GDP)	31.4	31.2	31.3

Table (2)⁷ **Source:** UNCTAD (2014) - Last Available Data

Impact of the Egyptian Revolution on the Neighborhood Countries

Starting a new path carries many challenges in the near future as they start with many imbalances and chronic problems. Although the economic impact is not very clear yet as it only been a year since the Arab spring took place many negative effects starts to show as the losses were estimated by \$100 billion. Libya, Syria and Egypt suffered the worst losses in terms of GDP, between them these states lost \$20.6 billion of their gross domestic product and public finances were eroded by another \$35.3 billion, see figure 6.

⁷ Note: * The UNCTAD Inward FDI Performance Index is Based on a Ratio of the Country's Share in Global FDI Inflows and its Share in Global GDP. ** The UNCTAD Inward FDI Potential Index is Based on 12 Economic and Structural Variables Such as GDP, Foreign Trade, FDI, Infrastructures, Energy Use, R&D, Education, Country Risk. *** Green Field Investments Are a Form of Foreign Direct Investment Where a Parent Company Starts a New Venture in a Foreign Country By Constructing New Operational Facilities From the Ground Up. **** Gross Fixed Capital Formation (GFCF) Measures the Value of Additions to Fixed Assets Purchased By Business, Government and Households Less Disposals of Fixed Assets Sold Off or Scrapped.



Source: Geopolitcity, 2012

Figure 6: Revolution Cost to GDP and to Public Finance during 2011

Libya appears to be the worst affected as the conflict in the country ceased most of the economic activities. The total costs to the fiscal balance were estimated at \$6.5 billion or 28.8% of the GDP, this fall was due to decrease in military and social expenditures as well as declining oil revenues and investment in the country. In addition, costs to public revenues have been balanced by a decrease in expenditures due to the government fall down. In addition, "More than 740,000 people have fled Libya since the start of the conflict and severe disruptions in the hydrocarbons sector have devastated the economy" which resulted in to further drop in Libya's GDP. The fall in domestic oil production, lack of foreign workers, low local consumption and decreased purchasing power had a huge negative impacted on the Libyan economy.

Although the four components of GDP (consumption, investment, government expenditures and net exports) had decreased generating this huge amount of reduction in GDP, 28.8%, the largest reduction in the GDP components was in the net exports. The oil industry represents 95% of Libya's exports, as conflicts and civil wars took place in the country, the oil production decreased tremendously; Libya is now producing only 25% of its oil potential production resulting in to major decrease in net exports which has a great contribution in Libya's GDP. The cost of the Arab spring on Egypt's fiscal balance is \$5.5billion. In April, the increase in wages for civil servants and tax breaks to pacify protesters have cost between \$710 million to \$914 million, as well as, public expenditures increased by \$5.44 billion. Egypt's growth was forecasted at just 1.22 percent in 2011 following severe disturbance in its economic activities due to currency depreciation, closure of banks and the stock exchange, a standstill in foreign direct investment, and the collapse of the vital tourism sector. The loss in official reserves amounting to \$9 billion, and a social spending increase of 25 percent has widened the fiscal deficit. Tourism sector was the most affected one by this Arab spring as it accounted for 6% of GDP in 2010. Due to violence, remonstration, instability and tourism have major decreases in visitor arrivals decreased by 33%. Duration of time spent in Egypt decreased by 23% from 141 million nights in 2010 to 114 million in 2011, and dollars spent per day while visiting decreased to \$72 per day compared to \$85 in 2010 (Association of Fundraising Professionals (AFP, 2012).

RECOMMENDATIONS

We do believe the best thing to do is learning from other nations' successful experiences, such as the Malaysian development model. We believe that the country will go into a pitfall, if they decide to borrow from international financial institutions such as the World Bank of the IMF. These institutions are in a position to extend financial help and for that

help to be given, they expect certain obedience, certain submission to their way of doing things. These financial institutions are working to serve their own targets and own benefits. The World Bank let many southern countries down and refused their demands and protests over certain things. So, our country should start taking serious steps towards depending mainly on self finance that means depending on internal financial sources and empowering local industries by issuing laws and regulations to minimize taxes and deregulate interest rates to encourage business people and manufacturers to be more productive. Through the following channels:

- **Importance of Peace and Stability:** No government can have a richer country, if it is continuously facing internal instability due to up rises and rites. Peace and stability are essential to utilize human resources in order to enrich not only what it has internally, but also to bring in the raw material in order to add value. That's how countries become rich.

In addition to empower local authorities to provide grants to the poor, affordable housing with quality to low income families, and housing at subsidized rents and prices. Also development plans should be prepared and compulsory purchase powers should be provided.

- **Importance of Corporate Governance as Essential Tool for Development:** a country may be rich in resources, but if people do not know how to exploit those resources, how to add value to those resources, then they are going to remain poor. Also to add value to resources there must be a government that is conscious of its duty to develop the country and that is knowledgeable about how to develop it.
- **Solving Slums Problems to Assure Social Security:** People should be paid a flat rate of national insurance. In return, they and their wives should be eligible for flat-rate pensions, sickness benefit and unemployment benefit. Also personal social services should be provided by local authorities, such as: deprived children, elderly people, mentally disordered, and the handicapped. Nevertheless, providing financial support to households for raising children to combat homeless and street children phenomena.
- **Correcting Labor Market Working Conditions:** Improving conditions in workplace, workers' compensation, better retirement benefits, plus worker's rights regarding salaries and wages.
- **National Health Service:** Free treatment should be funded and offered by the National Health Service. Also funds should be allocated towards modernization and extension schemes aiming at improving administrative efficiency. Improvements should entail nursing, vaccinations.....etc.
- **Education:** Free secondary education should be provided. School leaving age should be raised and upgrading school buildings and prefab classrooms is a must. Improving instructor's payments as well as improving existing schools, modules, and education programs.
- **Agriculture and Rural Areas:** Improving the quality of life in rural areas, security of tenure for farmers and others. Issuing legislations for agricultural wages, and general subsidy system for farmers. Providing essential services such as: gas, electricity, water and transportation services. (As well as in leisure and public entities).
- **Increase Public Industrial Protectionism through Increasing Capital Inflow to Invest on National Project.** In addition to manage the exchange rate of local currency is very important. That helps the country to know what it gains and can forecast its future earnings as well. The point is, that the western developed world have the

control over currency speculation; they can speculate with any currency and their speculation is so designed that they can either revalue a currency or devalue a currency to any level. They hold this power by which they can imply make or break developing countries' economy.

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APPENDICES

Table 3: Balance of Payments Indicators

	<u>FY (%)</u>	
	2009/2010	2010/2011
<u>Trade Balance:</u>		
- Merchandise exports/GDP	10.9	11.5
• Oil exports / Total exports	43.0	45.0
• Crude oil exports / Oil exports	43.6	46.7
- Merchandise imports / GDP	22.4	21.5
• Non-oil imports / Total imports	89.5	88.3
Foodstuff & cereals imports / Non-oil imports	15.5	21.2
• Oil products imports / Total imports	6.7	7.9
- Volume of foreign trade / GDP	33.4	33.0
- Coverage ratio of merchandise exports / merchandise imports	48.7	53.2
- Trade Balance / GDP	-11.5	-10.1
<u>Services Balance:</u>		
- Services balance / GDP	4.7	3.3
• Total services receipts / GDP, of which:	10.8	9.3
Suez Canal tolls / GDP	2.1	2.1
Tourism / GDP	5.3	4.5
<u>Transfers:</u>		
- Net transfers / GDP	4.8	5.6
Remittances of Egyptians working abroad/ GDP	4.5	5.3
- <u>Current Account / GDP</u>	-2.0	-1.2
- Current receipts / GDP	26.5	26.3
- Current payments / GDP	28.5	27.5
- Current receipts / Current payments	93.1	95.7
<u>Capital and Financial Account:</u>		
- FDI in Egypt / GDP	3.1	0.9
- <u>Overall Balance / GDP</u>	1.5	-4.1
- Months of merchandise and service imports covered by NIR (end of June)	6.8	4.9

